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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director

DATE: March 20, 2006

SUBJECT: Educational Loan Notes

ED ISSUES DEAR PARTNER LETTERS

On February 8, 2006, President Bush signed the Higher Education Reconciliation Act of 2005 (the "HERA"), Pub. L. 109-171, which made significant changes to the Higher Education Act of 1965, as amended (the "HEA"), and reauthorized the Federal Family Education Loan Program (FFELP). The U.S. Department of Education (ED) released Dear Colleague Letter (DCL) [GEN-06-02](#) (with attachments) on March 10, 2006, which discusses the effect of the changes made to the HEA by the HERA that affect the Federal Direct Loan Program (FDLP), the Federal Perkins Loan Program, and FFELP. DCL [GEN-06-03](#) dated March 14, 2006, has also been released to correct an error in a loan limit chart on page 7 in the attachment of [GEN-06-02](#). Both DCLs can be found on the Information for Financial Aid Professionals (IFAP) Web page at www.ifap.ed.gov.

DEFICIT REDUCTION ACT OF 2005 – LENDER ITEMS

Last month's issue of *Educational Loan Notes* featured a number of provisions of the Deficit Reduction Act (DRA) of 2005. Below is a summary of additional items that concern lenders:

1. **Lender insurance.** For loans first disbursed on or after July 1, 2006, insurance on defaulted loans will be reduced from 98 percent to 97 percent, (exempt claims will have 100 percent insurance), and exceptional performer insurance will be reduced from 100 percent to 99 percent.

The DRA defines "exempt claims" as claims for loans on which it is determined that the borrower (or the student on whose behalf a parent has borrowed), without the lender's or the institution's knowledge at the time the loan was made, provided false or erroneous information or took actions that caused the borrower or the student to be ineligible for all or a portion of the loan or for interest benefits.

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2. **Interest rates.** Although interest rates will change on July 1, 2006, a borrower who has previously received FFELP funds under an existing MPN may continue to borrow under that MPN unless a new MPN is required for another reason (e.g., the borrower changes lenders). Information about the interest rate changes may be communicated to the borrower through the required initial disclosure and/or supplemental disclosures.

3. **Consolidation Loan Program.** As reported in February's *Educational Loan Notes*, the interest rate for the Consolidation Loan Program is unchanged (i.e., a fixed rate that is the weighted average of the loans being consolidated, rounded up to the nearest 1/8 of a percent). Following are other important issues to note regarding Consolidation loans.

- In spite of indications that it would be eliminated, the “**single-holder**” rule remains.
- Spousal and in-school consolidation options are eliminated effective July 1, 2006.
- A Consolidation loan borrower will be allowed to apply for a subsequent Consolidation loan only for the purpose of obtaining an income-contingent repayment plan and only if the original Consolidation loan has been submitted to the guarantor for default aversion assistance.
- A FFELP borrower may now obtain an FDLP Consolidation loan only if a FFELP lender denies his or her Consolidation loan application.

4. **Interest subsidy – escrow agents.** The current restriction on interest subsidy has been extended to include disbursements made through an escrow agent. A lender cannot bill for interest benefits on loans disbursed through an escrow agent more than three days before the first disbursement date, effective July 1, 2006.

5. **Special allowance (applicable to tax-exempt funds used to make or purchase loans).** The DRA makes permanent the temporary provision of the Taxpayer-

Teacher Protection Act of 2004 which eliminated the 9.5 percent minimum yield on loans made or purchased with pre-October 1, 1993, tax-exempt funding when such tax-exempt funding is refunded on or after September 30, 2004, including when such loans are no longer held in minimum yield eligible tax-exempt fundings on or after September 30, 2004. The effective date is July 1, 2006.

6. **Special allowance (applicable to loans made or purchased with tax-exempt funds).** The DRA provides for the elimination of “recycling” for loans made or purchased on or after the date of enactment of the HERA and for those loans held by the lender that are not receiving the minimum yield for eligible tax-exempt fundings as of the date of enactment. This is effective as of July 1, 2006.

The DRA also provides for an exception until December 31, 2010, to the above-described provision in the case of a holder that is on the date of enactment and during the quarter for which special allowance is paid:

- A unit of state or local government or a non-profit private entity;
- Not owned or controlled by, or under the common ownership or control with, a for-profit entity; and
- Held, directly or through any subsidiary, affiliate, or trustee, a total unpaid balance of principal equal to or less than \$100 million on loans for which special allowances were paid under this subparagraph (i.e., 9.5 percent) in the most recent quarterly payment prior to September 30, 2005.

7. **Special allowance: PLUS and Consolidation loans.** The act removes the clauses that place limits on special allowance payments for PLUS and Consolidation loans. The effective date is for special allowance payments made on or after April 1, 2006.

(Continued on the next page.)

8. **Recapture of excess interest.** A new clause was added that requires lenders to remit excess interest back to ED (at least annually) when the special allowance calculation for a given quarter is at a rate that is less than the applicable interest rate.
9. **Excess interest calculation.** The excess interest calculation is equal to the applicable interest rate minus the special allowance support level multiplied by the average daily principal balance during a given quarter divided by four.

The special allowance support level is a number expressed as a percentage equal to the sum of the rates determined under subclasses (I) and (III) of clause (i), and applying any substation rules applicable to such loan under clauses (ii), (iii), and (iv) in determining such sum. This is effective for special allowance payments made on or after April 1, 2006.

The Michigan Guaranty Agency (MGA) will provide updates in future issues of *Educational Loan Notes* on any clarification or DCLs that we receive from ED. If you have any questions regarding these changes please contact Betty Calloway at 1-800-642-5626, extension 39639, or via email at callowayb@michigan.gov.

INTRODUCING MGA'S NEW DEPUTY DIRECTOR

MGA is pleased to announce the appointment of Jon Versluis as Deputy Director of Claims and Collections. Jon brings with him many years of experience in the credit industry. He worked for 15 years at Greenpath Debt Solutions, a credit counseling firm, first as a credit counselor and later as manager of the West Michigan region. Most recently, Jon worked as the commercial credit manager for a major building supply company in the Grand Rapids area. He was on the Board of the Consumer Credit Association of Greater Grand Rapids, serving terms as vice president and as president.



Jon Versluis, Deputy Director

Jon is married and the very busy father of five children – four boys and a girl, ranging in age from one to 13. His favorite activities are those that involve the entire family. He especially enjoys their family soccer games because the younger children have the opportunity to play with their older siblings. Jon sees to it that everyone is able to get the ball and has a chance to score. “It’s amazing how often the game ends in a tie,” he says with a grin.

MGA is clearly fortunate to have Jon as a part of our team, and he says he is very excited and happy to be here. His years of credit experience in the private sector are sure to bring a valuable, fresh perspective to MGA’s Claims and Collections Section. Jon can be reached at extension 60640 or via email at versluisj@michigan.gov. Please join us in welcoming Jon to the Michigan Guaranty Agency!

EARLY INTERVENTION SERVICES

Since May 2000, MGA has had a contract with Student Borrower Services (SBS) to contact our high-risk borrowers (i.e., those borrowers who withdrew or dropped to less than half time at all participating schools, as well as proprietary school and community college graduates) to inform them of their rights and responsibilities and assist them with the repayment process. Our partnership with SBS ended on February 28, 2006.

After a competitive bid process a new contract was awarded to Student Assistance Corporation (SAC) effective March 1, 2006.

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We are working with SAC to update our materials (brochures, withdrawn borrower exit counseling packets, letters, etc.). As soon as we have the updated materials, we will share them with you.

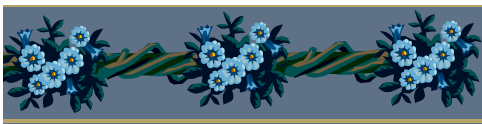
We are excited to work with SAC and believe they will generate new ideas to enhance our Early Intervention Initiatives. One enhancement already in place is the use of different letters to target students who have graduated, those who have dropped below half time, and those who have withdrawn from school. The messages are customized to address the specific circumstances of the borrower (i.e., congratulatory for graduates, offering information and available options for other borrowers). If you have any questions, please feel free to contact Janet McKeown via email at mckeownj@michigan.gov or at extension 51723.

MGA SPRING SCHOOL WORKSHOP – MARK YOUR CALENDAR!

MGA's 2006 Spring School Workshops will be held on Tuesday, May 23 at Grand Rapids Community College's M-TEC Center and Wednesday, May 24 at Eastern Michigan University. Rebecca Diskin, Regional Training Executive, will be the presenter. The following information will be presented:

- Policy and regulatory update
- Unmet need
- Preparing for an audit
- Professional judgment and the EFC
- Dealing with challenging students and parents
- A FFELP guide

More information will be forthcoming. If you have any questions, please contact Flora Boles, School Services Unit, at extension 52882, or via email at bolesf@michigan.gov.



ONLINE STUDENT LOAN COUNSELING VERSION 4.0 IN PRODUCTION

The Mapping Your Future (MYF) Online Student Loan Counseling (OSLC) team released OSLC version 4.0 on Saturday, March 4. This new release provides schools with additional customization options and easier data retrieval while enhancing the counseling sessions for borrowers. Below is the list of features:

Revised format for borrowers: MYF replaced the standard loan repayment calculator with the debt/salary wizard, placing its own screen after the primary counseling content. If the school adds average indebtedness information to the counseling content (see the next feature description), this will display above the calculator as in the following example: On average, students at MYF DEMO SCHOOL borrowed \$10,800. At the maximum interest rate of 8.25 percent, the monthly payment for a ten-year standard repayment would be \$128.79. You can use the calculator to do “what-if” analysis with varying debt levels and interest rates and determine the salary needed to support this debt.

Average indebtedness customization: Schools now can enter average indebtedness information for students that received a particular loan type. The indebtedness amount then appears in a sentence above the debt/salary wizard as described above. This feature enables schools to more easily meet the Stafford entrance and exit requirement to provide estimated monthly repayment information based on average indebtedness for borrowers at the school.

View or download confirmations: Schools can view or download confirmations since the last time they viewed or downloaded them. This means they no longer need to remember the last date they retrieved counseling records in order to run the appropriate date range.

Budget customization: Previously students were not required to complete a budget during any of the entrance sessions, but did need to do so during exit counseling sessions. With the release of OSLC 4.0, schools make this decision, choosing if/when students will be required to complete the budget.

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Guarantor Exception Report Batch: Federal regulations require schools to forward exit counseling reports to guaranty agencies within 60 days of the students completing exit counseling. Through ExitExpress, participating guaranty agencies (mapping-your-future.org/services/eplist.cfm) provide a service for schools by retrieving that exit data on their behalf. Schools still are responsible for ensuring the guaranty agency has retrieved the counseling data within 60 days. If they have not done so, schools should send the data to them. With the release of OSLC 4.0, schools can access the Guarantor Exception Report and print records in one print job that the guarantor has not retrieved, assuming the guarantor is not retrieving that data timely.

If you have questions or concerns about OSLC 4.0, contact Beth Ziehmer at beth@mapping-your-future.org or (573) 796-3730.

ED ISSUES GUIDANCE ON FORMS SET TO EXPIRE

ED has issued reminders and guidance to the National Council of Higher Education Loan Programs (NCHELP) regarding the status of the following financial aid forms. These forms are about to expire or are in extension phases.

- **Federal Stafford Loan Master Promissory Note (MPN).** The extended expiration date of this form was December 31, 2005. The FFELP community is advised, however, to continue using the current version of the MPN (original expiration date was September 30, 2005) until the Office of Management and Budget (OMB) approves a new form.
- **Total and Permanent Disability Form.** OMB has granted an expiration date extension to March 31, 2006. The form's original expiration date was December 31, 2005.
- **Federal PLUS Loan MPN.** ED extended the expiration date for this form to February 28, 2006. The current Federal PLUS Loan MPN originally was to expire on January 31, 2006.

Additionally, all deferment forms with a current expiration date of September 30, 2005, were previously extended by OMB to February 28, 2006.

COMMON MANUAL CHANGES

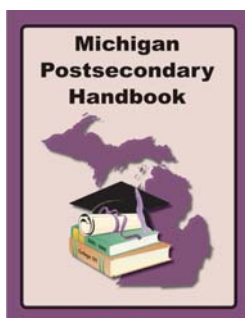
On February 16, 2006, the *Common Manual* Governing Board approved policy changes to the *Common Manual* as proposed in four proposals from Batch 127. The changes made in these proposals will be incorporated into the *Common Manual* with the publication of the July 2006 update. These changes will also be incorporated into the February 2006 *Integrated Common Manual*. The *Integrated Common Manual* is available on the MGA Web site under FAA Resources. [Attached](#) to this issue of *Educational Loan Notes* is a summary of the changes.

2005-06 MICHIGAN POSTSECONDARY HANDBOOK

The Michigan Postsecondary Handbook has been out of circulation for five years, but has been recreated and recently mailed to Michigan high schools, intermediate school district offices, career, technical, and adult education schools, Michigan college financial aid offices, and State of Michigan libraries, as well as other organizations that work with college bound students. The primary purpose of the handbook is to serve as a reference tool for counselors as they work with parents and students who are in the process of making critical decisions regarding postsecondary education.

The handbook consists of profile and program information for community colleges, public four-year universities, independent colleges and universities, and proprietary schools. It also contains information on occupational programs (aeronautics, barber, commercial vehicle training, cosmetology, and nursing), Michigan Career Pathways, Schools-To-Register Apprenticeship Program, ACT and SAT testing, National College Athletic Association (NCAA®), Advanced Placement and Dual Enrollment policies, as well as a Classification of Instructional Programs (CIP) Code Directory.

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The Profile Page, consisting of admission information, as well as other dated material within the book, will be updated each year. The program information will be updated every other year.

The handbook is available on MGA's Web site at michigan.gov/studentaid. A limited number of paper copies and compact discs (CDs) are also available. If you have a need for this resource material, please contact Patty Hill, Training and Development Unit, at extension 36051, or via email at hillpl@michigan.gov.

COLLEGE GOAL SUNDAY

'Tis the season to file the Free Application for Federal Student Aid (FAFSA), and on February 12, 2006, families throughout the State of Michigan, 25 other states and the District of Columbia did just that. College Goal Sunday began in Indiana in 1989 and since then has been spreading throughout the nation. This year marked Michigan's third year of participation in the event. There were 22 College Goal sites located throughout the state.



Parents and students get help with the FAFSA.

Eleven staff from the Student Financial Services Bureau hosted the Lansing site, which was located at Lansing Community College's West Campus. Joining them were seven student financial aid advisors from Michigan State University and one financial aid advisor from Olivet College who volunteered their time to assist families with the filing process. A total of 173 parents and students took advantage of the opportunity to meet with student financial aid

advisors one-on-one to receive assistance with completing the FAFSA. While attending the event, students and parents could listen to a formal presentation on state, federal, and private student financial aid programs and on general information about filing the FAFSA. The computer lab was available for those who were ready to file the FAFSA online. The students in attendance represented 26 high schools from the tri-county area and beyond.

Statewide, 1,281 students took advantage of the assistance provided on College Goal Sunday. This represents a 46 percent increase over 2005 participation. The word is out – there is FREE help with completing the FAFSA.

THE "ED" PIPELINE

Following is a description and link to some of the most recent ED correspondence for schools and lenders.

Dear Partner

March 2006

[ANN-06-02](#)

This letter announces FSA's release of the second of three online, self-paced learning modules on EDEExpress for 2006-07. This module, "Global Functions and Packaging" covers all the global functions of the EDEExpress software as well as the Packaging Module.

Dear Partner

February 2006

[CB-06-03](#)

This letter discusses the use of state grant and scholarship awards for meeting the nonfederal share requirement for the Federal Supplemental Educational Opportunity Grant (FSEOG) Program for the 2005-2006 award year. The attachment to this letter is a listing, by state, of the percentage of each state's awards that can be used for the FSEOG non-federal share.

Dear Partner

February 2006

[GEN-06-01](#)

This letter provides an update on the implementation schedule for Federal Student Aid's ADvance solution.

LENDER LIST UPDATES

School personnel should record the following actions on the “Participating Lender List” dated April 28, 2005. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076.

Name Change

Muskegon County School Employees Credit Union, 830342, has changed its name to Community Schools Credit Union.

Newly Participating Lender

MEDPreferred, LLC, 834058, c/o ACS, 2277 East 220th Street, Long Beach, CA 90810-1690. Telephone: 800-835-4611.

SCHOOL LIST UPDATES

The following changes should be recorded by lenders on MGA’s “Active Michigan School List” dated January 3, 2006. If you have any questions regarding these changes, please contact Stacy Cardwell at extension 36074.

Contact Information Update

Detroit Business Institute, Southfield, 030057-01

Darcy Stanley’s telephone number is 248-552-6300, and his fax number is 248-552-7300.

Kalamazoo Valley Community College, Kalamazoo, 006949-00

The main telephone number for this school is 269-488-4231.

“Q” AND “A”**Required Notices and Authorizations**

Are there any general rules that a school can use to determine when students or borrowers require notifications?

Yes. In general schools are required to provide certain notices to the borrower, or in the case of a PLUS loan, to the borrower and dependent student in conjunction with specific events that relate to the loan delivery.

What specific events require student and borrower notification?

Students and borrowers must be notified for each of the following events:

- **Initial notice of funds.** Students must be notified prior to disbursement about information relating to the loans they are about to receive. This requirement is usually met through an award letter and current law only states that it must be sent to the student.
- **Credit to a student’s account.** If a student’s account is credited with any Title IV loan funds, the school is required to notify the borrower of the date of the credit, the amount of the credit, and the borrower’s right to cancellation of the loan proceeds.

What specifically must an award letter contain?

Award letters are required to contain the amount of proceeds the student or the student’s parent can expect to receive for each loan type. The award letter must also include instructions to the borrower to either accept the aid as stated or to take action only if requesting a cancellation or reduction of the loan amount. Finally, the award letter should contain how and when the proceeds will be delivered.

(Continued on the next page.)

How much time does a school have to inform a student of a credit on their account?

Notice of the credit of Title IV funds on a student's account must occur no earlier than 30 days before and no later than 30 days after the actual credit occurs.

What should that notice contain?

The school notice of credit to a student account must contain the date and amount of the funds that were applied to the account. For funds disbursed by Electronic Funds Transfer (EFT), the notice must also contain a statement explaining the borrower's right to cancel all or any portion of the loan proceeds.

Are there certain authorizations that a school must obtain before taking any action?

Yes, a school must obtain **written** authorization from a borrower to perform the following activities:

- Deliver loan proceeds received via EFT or master check to the student or parent borrowers. Please note that this authorization is usually obtained directly on the Master Promissory Note (MPN).
- Use any loan proceeds to pay for current year charges other than tuition, fees, and/or room and board.
- Deliver any proceeds directly to a borrower's personal bank account.
- Hold a credit balance on behalf of the student or parent borrowers.
- Use any current loan proceeds to pay for minor prior year charges.

Are there any other entities besides the school that can share the burden of notifying students?

In the case of notifying a borrower of the multi-year use of any MPN, borrowers must be notified by the school and the lender or a guarantor on behalf of the school and lender. While schools and lenders may reach an agreement with a guarantor to manage this process, all entities involved must document that a process is in place for providing the confirmation or notification for subsequent loans made on an MPN.

What is the difference between confirmation and notification?

Notification is the process whereby the borrower is informed or notified of the proposed loan amounts, types, and dates. Confirmation requests that the borrower actually take action to authorize or verify the information being presented by the school, lender, or guarantor.

If a borrower requests a cancellation of loan funds, who informs them that the cancellation is complete?

Any borrower wishing to cancel all or a portion of any loan must notify the school. The school, based on whether or not the loan funds have been disbursed and depending on when they received notification from the borrower, must notify the borrower in writing or electronic submission of the outcome of any cancellation request.

To learn more about notifications and authorizations, see the *Common Manual*, Section 8.1 - 8.3.B.

Have a question you would like to ask? Contact Justin Draeger at extension 31940 or via email at draegerj@michigan.gov to submit your question or to suggest a topic you would like to see discussed in a subsequent issue of *Educational Loan Notes*.

Calendar of Upcoming Events

March

- 21 Mapping Your Future Evening Chat
Applying to and paying for college
(including student loans).
7:00 – 8:00 p.m.

April

- 5 MGA Basic Workshop
Schoolcraft College
VisTaTech Center
Livonia, Michigan

May

- 16 Mapping Your Future Evening Chat
Financial aid and managing student loans and
consumer debt.
7:00 – 8:00 p.m.
- 23 Spring School Workshop
Grand Rapids Community College
M-TEC Center
Grand Rapids, Michigan
- 24 Spring School Workshop
Eastern Michigan University
Ypsilanti, Michigan
- 29 MGA Offices Closed

If you need further information or wish to submit items for the calendar,
please contact Jim Peterson, Editor, at extension 36944 or via email at
petersonj@michigan.gov.

| # | Subject | Summary of Change to <i>Common Manual</i> | Type of Update | Effective Date |
|-----|--|---|-------------------|--|
| 850 | Taxpayer Relief Act Reporting Requirements | <p><u>Figure 13-1</u></p> <p>Requires lenders to include separately on the Claim Form the amount of unpaid origination fees and unpaid capitalized interest that is included in the total outstanding principal balance on the date that the claim is filed.</p> | Guarantor | Claims filed by the lender on or after January 1, 2006, for loans first disbursed on or after September 1, 2004. |
| 851 | Required Information on Common Claim Form | <p><u>Figure 13-1</u></p> <p>The figure is being revised to conform to changes made to the common Claim Form. A new "Required" field for disability claims. New fields regarding PLUS students demographics. New fields for validity of information being requested. Previous "If Available" fields have been changed to "Required" fields.</p> | Guarantor | Claims first filed by the lender on or after January 1, 2006. |
| 852 | <p>Total and Permanent Disability Determination with New Loan</p> <p>Deferred for additional review and consideration</p> | <p><u>13.8.E Total and Permanent Disability</u></p> <p>Revised policy clarifies that the borrower is not eligible for a TPD discharge of outstanding loans if a loan was made during the 3-year conditional discharge period. The lender is required to review the borrower's loans on the lender's system to determine if the borrower meets this criterion. If the lender's records indicate that a loan was made during the 3-year conditional period, the lender must deny the discharge and inform the borrower.</p> | Guarantor | Total and permanent disability loan discharge applications received by the lender on or after July 1, 2006, unless implemented earlier by the guarantor. |

| # | Subject | Summary of Change to <i>Common Manual</i> | Type of Update | Effective Date |
|-----|--|--|-------------------|---|
| 853 | Processing Closed School and False Certification Loan Discharge Applications | <p><u>13.8.B Closed School</u> <u>13.8.D False Certification</u></p> <p>Revised policy modifies the language to align similar processing requirements for closed school and false certification loan discharge applications. New language has been added regarding the capitalization of unpaid interest, denial of borrower's request for discharge and the date a lender is deemed to have exercised forbearance on the loan(s).</p> | Correction | Retroactive to the implementation of the <i>Common Manual</i> . |
| 854 | Processing Closed School Discharge Applications | <p><u>13.8.B Closed School</u></p> <p>This change is necessary to reinsert language inadvertently omitted from the text during the restructuring of this subsection.</p> | Correction | Retroactive to the implementation of the <i>Common Manual</i> . |

Batch 127

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